
TREASURY MANAGEMENT – ANNUAL REVIEW OF PERFORMANCE 2018/2019

REPORT OF THE STRATEGIC FINANCE MANAGER

1. Purpose of the Report

- 1.1 To report on the Treasury Management performance of the Authority for 2018/2019 in line with best practice as prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011).

2. Introduction

- 2.1 Sunderland City Council, as lead authority, performs the treasury management function on behalf of the Authority.
- 2.2 This report sets out the annual borrowing and investment performance for the financial year 2018/2019 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Authority on 19th March 2018. The Treasury Management Strategy comprises a Borrowing and Investment Strategy which sets out the Authority's strategy for borrowing and also its strategy for managing its investments (which gave priority to the security and liquidity of those investments).
- 2.3 The Treasury Management Policy Statement and Strategy complies with best practice, including the Ministry of Housing, Communities and Local Government's 'Statutory Guidance on Local Government Investments' updated in February 2018 and also incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, updated in December 2017.

3. Review of Performance 2018/2019 - Summary

3.1 Cost of Borrowing

The performance of the Authority's Treasury Management function continues to contribute financial savings that are used to provide funding to support future years' capital programmes and help to support the Authority's revenue budget. The average rate of the lead authority's borrowing at 3.04% compares favourably when benchmarked against other authorities and has helped to keep the revenue cost of the Authority's borrowing low in comparison to other Authorities. Section 4 of the report sets out more details of the Authority's Borrowing Strategy, for members information.

3.2 Rate of Return on Investments

The Authority has benefited from the fact that its budgeted investment income has been maintained throughout the year at a rate of return of 0.65% in 2018/2019 compared to the benchmark rate of 0.51%. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section 6 of this report in respect of the Authority's Investment Strategy and Performance.

3.3 Treasury Management Prudential Indicators

The Authority has not exceeded any of its Treasury Management Prudential Indicators during 2018/2019. These indicators help to control the day to day Treasury Management activity which is closely monitored to ensure limits set each year by the Authority are not exceeded and which means capital expenditure can be appropriately financed and is affordable within the constraints of the revenue budget.

It is also very important that the Authorised Borrowing Limit for External Debt for the Authority, which is a statutory limit which must be set each year under section 3(1) of the Local Government Act 2003, is not exceeded. This limit was set at £47.213m for 2018/2019 and the highest level reached by the Authority of £41.618m during the year was below this limit. More details of all of the Prudential Indicators are set out in Section 5 of this report.

4. Borrowing Strategy and Performance – 2018/2019

4.1 The basis of the agreed Borrowing Strategy was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Authority's future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 3.50% for long-term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities as appropriate.

4.2 The Borrowing Strategy has been regularly reviewed by this Committee throughout the year and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2018/2019 was based upon the views of the Lead Authority's Finance Officer, supplemented with market data, market information and leading economic forecasts provided by the Authority's treasury management adviser, Link Asset Services.

4.3 The view when the Treasury Management Policy and Strategy was drafted, was there would be further increases to the current Bank of England (BoE) 0.50% Base Rate of 0.25% by the end of 2018, 2019 and late summer 2020. Public Works Loan Board (PWLb) borrowing rates were expected to rise, albeit gently,

during 2018/2019 across all periods but could be subject to exceptional levels of volatility due to uncertainty over the outcome of Brexit negotiations and geopolitical developments throughout the world.

The BoE announced the 0.25% increase in the base rate to 0.75% at its Monetary Policy Committee meeting on 1st August 2018 based on economic data at the time which indicated that ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to the 2% target. Subsequent BoE meetings left the base rate unchanged ahead of the original Brexit deadline of 29th March 2019 which currently has now been delayed until 31st October 2019. This continued uncertainty over the nature of the EU withdrawal and whether any proposal would be agreed by Parliament has raised the possibility of Britain leaving the EU without a deal. This has been reflected in the markets with 50-year PWLB rates beginning the year at 2.27%, climbing to 2.79% in October 2018 before falling back to end the year slightly lower at 2.23%.

Sunderland City Council successfully applied to access PWLB loans at a discount of 0.20%. This certainty rate is available for those authorities that provide “improved information and transparency on their locally determined long-term borrowing and associated capital spending plans”. The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until 31st October 2019, which the Authority benefits from.

4.4 The table below shows the average borrowing rates in 2018/2019.

2018/2019	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Qtr 3 (Oct – Dec) %	Qtr 4 (Jan – Mar) %
7 days notice	0.36	0.51	0.58	0.57
1 year	1.44*	1.48*	1.54*	1.55*
5 year	1.86*	1.83*	1.82*	1.68*
10 year	2.29*	2.22*	2.23*	2.03*
25 year	2.66*	2.62*	2.76*	2.56*
50 year	2.40*	2.42*	2.62*	2.41*

* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities.

The strategy for 2018/2019 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 3.50% for long-term borrowing was set for 2018/2019 in light of the views prevalent at the time the Treasury Management policy was set in March 2018.

There have been high levels of volatility in the financial markets during 2018/2019. PWLB interest rates were on a rising trend until early December when 50-year rates reduced by 0.36% and rates reduced again in late March 2019. In line with

discussions with the Authority's Treasury Management adviser, Sunderland City Council took advantage of low borrowing rate troughs that have occurred and has taken out £60 million of new borrowing during the financial year. These rates were considered opportune and will benefit the Authority's revenue budget over the longer term. The new borrowing is summarised in the following table.

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
49½ years	12/12/2018	14/12/2018	14/06/2068	2.44	20.0
50 years	29/01/2019	31/01/2019	31/01/2069	2.42	20.0
50 years	22/03/2019	26/03/2019	26/03/2069	2.20	20.0

4.5 The Treasury Management Strategy for 2018/2019 included provision for debt rescheduling but also stated that because of the proactive approach taken by the Authority in recent years, and because of the very low underlying rate of the Council's long-term debt it would be difficult to refinance long-term loans at interest rates lower than those already in place.

4.6 The lead authority's borrowing portfolio position (of which the Authority forms a part) at 31st March 2019 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	298.7		
	Market	39.6		
	Other	9.6	347.9	3.23
Variable Rate Funding	Temporary / Other		27.6	0.65
Total Borrowing			375.5	3.04
Total Investments	All Council managed		182.9	
Net Position			(192.6)	

5. Prudential Indicators – 2018/2019

5.1 All external borrowing and investments undertaken in 2018/2019 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Prudential Indicators as follows:

The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2017/2018 in total as £47.213m which is detailed as follows:

	£m
Borrowing	28.124
Other Long-Term Liabilities	19.089
Total	<u>47.213</u>

The Operational Boundary for External Debt for 2018/2019 was set at £42.213m as follows:

	£m
Borrowing	23.124
Other Long-Term Liabilities	19.089
Total	<u>42.213</u>

Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

The Authority's maximum external debt in 2018/2019 was £41.618 million and is within the borrowing limits set by both of these indicators.

- 5.2 The table below shows that all other Treasury Management Prudential Indicators for the lead authority have been complied with during 2018/2019.

Prudential Indicators		2018/2019	
		Limit £'000	Actual £'000
P10 Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments		350,000	250,087
P11 Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments		58,000	-5,101
P12 Maturity Pattern		Upper Limit	
Under 12 months		50%	10.63%
12 months and within 24 months		60%	2.21%
24 months and within 5 years		80%	6.25%
5 years plus		100%	85.07%
A lower limit of 0% for all periods			
P13 Upper limit for total principal sums invested for over 365 days		75,000	0

The Lead Authority is currently within the limits set for all of its TM Prudential Indicators, which in turn mean the Authority is within these limits.

6. Investment Strategy and Performance – 2018/2019

6.1 The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

- 1) The **security** of capital;
- 2) The **liquidity** of its investments and then;
- 3) The Authority aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

The Annual Investment Strategy has been fully complied with in 2018/2019.

6.2 At 31st March 2019 the Authority had outstanding investments of £27.514 million. The table below shows the return made on the Authority's total investments for 2018/2019 compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Authority uses to assess its performance.

	2018/2019 Return	2018/2019 Benchmark
	%	%
In-house Managed Funds	0.65	0.51

6.3 All investments placed in 2018/2019 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List set by the Authority on 19th March 2018 and also takes into account subsequent revisions reported and approved to this Committee during the year.

The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Authority. The rate of return on investments, as reported during the year, has remained at very low levels compared to previous years although there has been some upward movement since the increase in the base rate to 0.75% announced by the Bank of England at its Monetary Policy Committee meeting on 1st August 2018.

Investment rates available in the market have continued at historically low levels and due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management adviser is to continue to limit investments to shorter term periods.

6.4 As Members will be aware, the regular updating of the Authority's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. The Lead Authority's Finance Officer has the delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported via the Strategic Finance Manager to this Authority and the Governance Committee

retrospectively, in accordance with normal Treasury Management reporting procedures. All changes made during 2018/2019 have already been reported to Members previously.

7. Reasons for Decision

- 7.1 To note the Treasury Management performance for 2018/2019 in accordance with agreed protocols within the CIPFA Code of Practice on Treasury Management.

8. Alternative Options

- 8.1 No alternatives are submitted for Members consideration.

9. Recommendation

- 9.1 The Committee is requested to note and comment upon the Treasury Management performance of the Authority for 2018/2019.

